



SYLVIA R. GARCIA

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

November 14, 2000

Honorable Mayor and City Council Members
Houston, Texas:

I am pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Houston, Texas (City) for the year ended June 30, 2000, including the independent auditor's report. The CAFR was prepared by the City Controller's Office and satisfies my responsibilities under state law. The accuracy of the financial statements together with the completeness and fairness of their presentation are the responsibility of the City's management. The enclosed data is accurate in all material respects and the report has been designed to present fairly the financial position and results of operations of the various fund and account groups of the City in accordance with generally accepted accounting principles (GAAP), as established by the Governmental Accounting Standards Board (GASB).

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of principal City officials, the City's organizational charts for the Office of the Controller and for Houston's city government, and a copy of the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the City's 1999 CAFR. The financial section includes the general purpose financial statements, the combining and individual fund financial statements and schedules, as well as the auditor's report on the general purpose financial statements. The statistical section includes selected financial and demographic information generally presented on a multi-year basis.

The Reporting Entity and Its Services

This report includes all funds and account groups of the City as well as those legally separate organizations for which the City is financially accountable. The City's determination of "financial accountability" is in accordance with Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*.

The City provides a full range of municipal government services to approximately 1.8 million residents and to an estimated 21 million conventioners and other visitors annually. Municipal services provided include police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection and disposal, sanitary code enforcement, health and human services, building and housing code enforcement, construction and maintenance of streets and certain bridges, traffic signal installation and maintenance, parks and recreation, library, cultural and convention

activities, and operation of three municipal airports, including George Bush Intercontinental and William P. Hobby Airports.

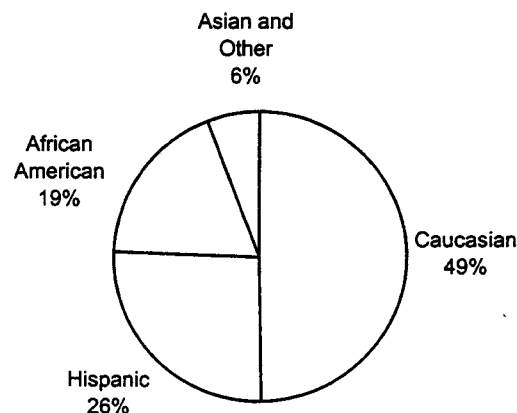
The City does not operate hospitals, schools, transportation systems, or higher education systems. Special districts and governmental entities with independent taxing authority administer the public hospitals and public schools within the City.

Economic Conditions and Outlook

Houston is well known as the energy capital of the world, but has also attained world-class prominence in other industries due to its tremendous wealth of natural and human resources. A major corporate center, Houston ranks seventh among U.S. metropolitan areas in the number of corporate headquarters of Fortune 500 companies with 18 and is headquarters to 18 of the 1998 *Fortune 100 Fastest Growing Companies*. Houston also was ranked as the third most livable city in the country by Places Rated Almanac in 1996 and 1997. Cendant Mobility, the world's largest relocation company, recently named Houston the most popular city for relocating employees transferring within the United States. More than half the world's 100 largest non-U.S.-based corporations have operations in Houston. Leading industries contributing to Houston's economic success include engineering and construction, real estate, aerospace and space commerce, medicine and health care, transportation, biotechnology, computer hardware and software technology, and electronics and telecommunications.

Houston is a center for cultural and performing arts with a 17-block theater district, second only in seating area to New York's Broadway, attracting two million people annually. Tourism is a growing industry in Houston. More than twenty-one million people visit Houston each year. Major attractions include the city's Theater District, the annual Houston Livestock Show and Rodeo, NASA Johnson Space Center and Space Center Houston, sports venues, museums, expansive hotel and convention facilities, and retail centers.

The fourth-largest city in the U.S. and the largest city in Texas, Houston's population exceeds 1.8 million. Seventy-one consular offices, forty-two foreign chambers of commerce and trade associations and twenty-eight foreign-owned banks from thirteen nations have helped make Houston both an international and a culturally diverse city. Houston's Primary Metropolitan Statistical Area (PMSA) is 49.7% Caucasian, 25.8% Hispanic, 18.8% African American, and 5.7% Asian and other.

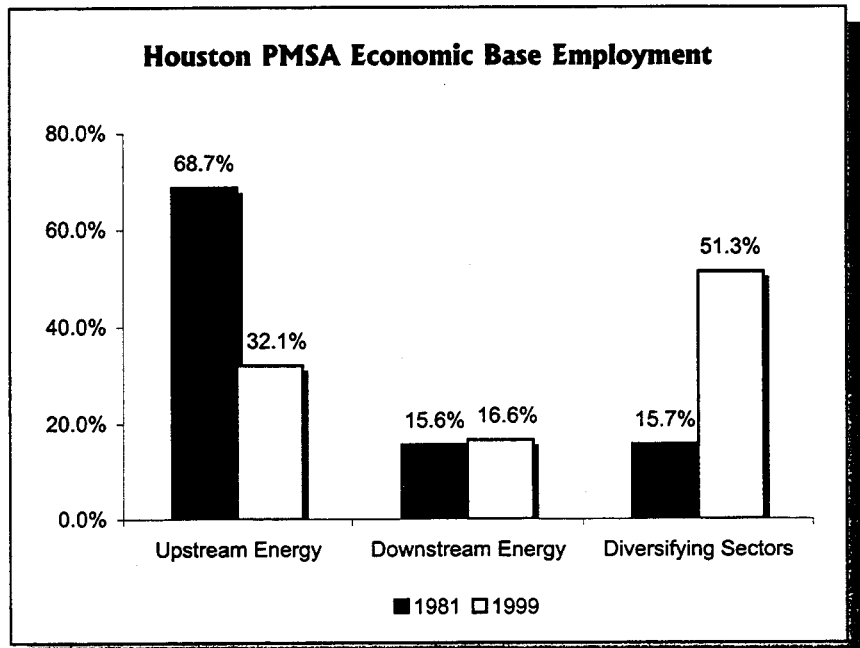


Houston has a highly skilled workforce and well-educated populace with almost 25% of adult Houstonians completing four or more years of college, compared with 20.3% nationally. In surveys conducted nationwide over the past decade, Houston has distinguished itself as a city with a positive attitude. Its continued economic growth and international presence reflect this.

Economic Conditions

Houston continues to experience significant prosperity as evidenced by its population growth and economic indicators:

- The population of Houston's Primary Metropolitan Statistical Area (PMSA) exceeded 4 million as of January 1, 2000 as compared to approximately 3.9 million at July 1, 1998.
- Houston's appraised property values, prior to any deductions for exemptions, increased from \$73 billion in 1996 to \$89 billion in 1999. This is an increase of almost 22%.
- In 1999, per capita income rose 4.4% to an average of \$32,200 and is expected to grow an average of 5% through 2004, according to the University of Houston Center for Public Policy.
- Total nonagricultural payroll employment in Houston increased by 2.5% according to the Dallas Federal Reserve Bank, in comparison with a national growth of 2.3%. Also, while Houston's unemployment rate in fiscal year 1999 grew to 4.6%, this was reversed in fiscal year 2000, with the unemployment rate reduced to 4.2%.
- Houston's economy continues to diversify. In 1981, employment in non-energy dependent sectors was only 15.7% of the economic base. By 1996, employment in these sectors had grown to 45.8% of the economic base and by 1999 it was 51.3% according to the Greater Houston Partnership.



- According to the Federal Reserve Bank of Dallas, Houston's seasonally adjusted Consumer Price Index increased by 3.8% in fiscal year 2000 as compared to an increase in the national average of 3.7% for the same period. However, the fourth quarter 1999 American Chamber of Commerce Researchers Association (ACCRA) Cost of Living Index indicates that Houston's overall after-tax living costs are 5% below the nationwide average, largely due to the City's low housing costs which are the lowest among the 18 large metropolitan areas with greater than 2 million residents.
- 1999 retail sales reflected an increase of 3.4% over 1998, according to the Greater Houston Partnership.
- Real estate, both commercial and residential, continues to be a strong sector of Houston's economy. In 1998, the City of Houston issued building permits valued at \$3.6 billion, an increase of 47.5% from 1997. Houston's CMSA (Consolidated Metropolitan Statistical Area) nonresidential contracts rose 49.4% to \$2.5 billion and residential 52.6% to \$3.1 billion. As of January 1999 there were 1,059 general-purpose buildings with 156.07 million square feet of rentable office space and an additional 4.64 million square feet was under construction.
- In 1999, Houston's airport system set a new record for passenger volume by serving 42 million passengers, an increase of 5.5% over 1998 with regional jet service more than doubling at IAH in the past year. The daily departures from Bush IAH have increased by 50% since 1994.

Outlook

Houston's employment growth rate decreased to 1% in late 1999 but has accelerated back to over 2% growth in 2000. In January, the Dallas Federal Reserve Bank predicted an employment growth rate in 2000 of 3.9%. Big-ticket auto and housing sales continue to set records, manufacturing and energy are reviving nicely from last year's setbacks and the stage is set for stronger job growth. With oil prices remaining high as well as natural gas prices, local drilling activity is strengthening. Construction in Houston is booming with the recently completed Enron Field, expansions to all three airports, the Port of Houston, George R. Brown Convention Center, museum and theater expansions, and construction of the new Reliant Stadium at Reliant Park for football and the Houston Livestock and Rodeo, the Convention Center Hotel, and many homes.

Over the past two decades the City has diversified its business base to become a leading international business center. The North American Free Trade Agreement (NAFTA) has enabled Houston to gain prominence as a hub of international trade. More than half the world's 100 largest non-U.S.-based corporations have operations in Houston. The growth of Johnson Space Center and building of the international space station have made Houston a center for the aerospace industry as well. In the future, Houston will benefit from the expansion of the bioscience, medical and healthcare industries, as well as the computer and electronic fields. Overall, the economic output of the Houston area is expected to more than double over the next twenty-five years. Economic growth is expected to average almost 3% annually, surpassing that of the U.S. and global economies.